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March 17, 1976

MEMORANDUM

SUBJECT: The Situation in Iran

We judge the mood in Tehran today to be much less ebullient than it was six months ago. Taking the edge off the euphoric atmosphere and producing in the Shah and his spokesmen a noticeable testiness of the late have been:

- the decrease of Iranian oil production;
- the consequent drop in the oil revenue;
- the need to make cutbacks in some ballyhooed domestic development projects;
- an increase in the cost of arms' purchases; and
- suggestions that a congressionally imposed limit on arms sales may be in the offing.

Nevertheless, we believe the political system is fundamentally stable, and the country's industrial revolution is proceeding.

Anti-Corruption Drive

The Shah is moving ahead vigorously with his current anti-corruption campaign. The drive appears to be a serious effort to alter traditional ways of doing government business. Those convicted so far of corrupt practices--in the awarding of defense-related contracts--include the chief of Iran's navy and 23 other military officers. Additional important regime figures may yet be implicated.

Politically, the campaign is part of the Shah's continuing effort--last fall he also launched an anti-profiteering effort aimed at the private sector--to identify the palace with reform and with action to ensure a more equitable distribution of Iran's wealth. Regime critics, ranging from the terrorists to the intellectual community, have charged that Iran's elite is siphoning off the bulk of the country's wealth for personal use, and the Shah is wasting it on needless military purchases.

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The Shah's campaign is designed to neutralize the issue as much as possible. His tactics closely resemble those used in 1963 when he launched his program of land and social reform in an effort to undermine his critics. The campaign enables the Shah to reassert his authority over an increasingly powerful and independent-minded business community and to play to the economic interests of the middle and lower classes, probably in the hope of forestalling increased demands from those quarters for political liberalization.

The Rastakhiz Party

A major domestic political event in March 1975 was the Shah's dissolution of the country's sham two-party system and the establishment of a single political organization--the Rastakhiz (or Resurgence) Party. We still have questions about what the Shah hoped to achieve by ending the multi-party experiment. He was firmly in control of the majority party, and by no means was he being challenged by the minority in parliament.

It is still unclear whether the party's evolution will be toward meaningful political expression--the Shah's avowed motive--or toward reinforcement of authoritarian rule. Given the scope of the organization, it is possible that the Rastakhiz party, if it gains momentum, could evolve in ways the Shah might not have intended. Some of the nation's most talented individuals, including some who show a degree of independence, have been drawn under the party umbrella. In fact, the Shah has ~~worried~~ that to not join the party means that an individual will not share in the rewards of the "Great Civilization."

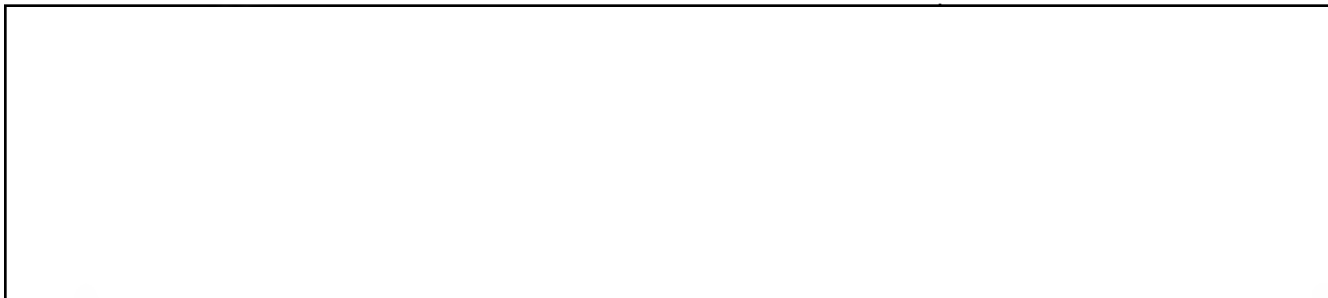
Some observers have argued that the creation of a one-party system has heightened the likelihood of political instability once the Shah dies and power passes to the Crown Prince, now 15 years old. The Shah may have believed the opposite. The former controlled two-party system was inefficient and unwieldy. The Shah may prefer to turn over to his successor a country in which the powers of government are coupled with those of a single country-wide political organization having a single chain of command from the palace

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to the village. He may view the potential for control inherent in such a system as offering the best chance for preserving the Pahlavi dynasty--which will celebrate its 50th anniversary this year.

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Terrorism



The two main terrorist groups in Iran are the People's Sacrifice Guerrillas, a communist group, and the People's Strugglers, a fanatical religious organization. The Strugglers deplore the growth of Western, non-Muslin influence and the diminished power of traditional religious leaders. They regard the Shah as a tool of foreign interests.

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Succession

The Shah, who is 56, is concerned with the survival of the dynasty following his death. His eldest son, the 15-year-old Crown Prince, is the constitutional successor and is being groomed for the throne. Through a constitutional amendment in 1967, the Shah sought to ensure a smooth succession. According to the amendment, if the Shah should die before the Crown Prince's 20th birthday, Empress Farah, the prince's mother, would become regent. She would rule, assisted by a special regency council of specified top government officials, until the Crown Prince reaches age 20.

According to another scenario which the Shah himself has surfaced, he would abdicate at some future time in favor of his son, retaining the status of elder statesman and mentor. Such a maneuver would do much to derail challenges to the Crown Prince until he could establish his own

authority, but it appears an unlikely option for the Shah who is so keenly interested in the exercise of power in his own right.

The Shah's decision to designate Farah as regent reflects his growing confidence in the loyalty and ability of the Empress. She is popular with Iranians--perhaps more so than her husband--and the Shah has in recent years sought to broaden her experience in matters of state. Should the Shah die unexpectedly, the Empress' popularity, the constitutional legitimacy of her position, and the expectation that she would rely on the Shah's top advisers suggest that a relatively smooth transfer of power and continuity of policy would occur.

Nevertheless, the Empress could not entirely fill the Shah's place, and interregnum would likely be characterized by shifting alliances of powerful individuals and elite groups, each seeking to use the Empress for their own ends. The military and security forces, now largely apolitical, would become a key factor in such maneuvering.

Regional Affairs

Among the primary goals of the Shah's foreign and defense policy are to attain a dominant regional role for Iran, prevent radical governments from coming to power in the area, and diminish the influence of external powers, especially the Soviet Union.

Last year, the Shah moved forward on these goals by pushing for the creation of a Gulf security pact. In this he was markedly unsuccessful; the various Arab states of the Gulf--for different reasons--turned a deaf ear to Tehran's proposal. There have been some indicators that the Shah may now turn to a series of bilateral arrangements, but except for Oman he is not likely to meet with a positive reception.

Tehran sought to mend its fences last year with its major rival in the region, Iraq. Following an agreement announced in Algiers in early March 1975, Baghdad and Tehran settled a wide range of differences. In return for ending its support of Iraqi Kurdish rebels, Iran got its way over the disputed boundary between the two countries. Despite

the current facade of good will, the attitude of each country toward the other is marked by distrust, competition, and divergent views on how the region should develop politically.

The relationship between Iran and Saudi Arabia is an uneasy one, worsened in recent years by conflicts over OPEC pricing policy. The Saudis see Iran--with its greater population, superior military establishment, and relatively more advanced technology--as a threat to Riyadh's political interests on the Arab side of the Gulf and in the Arabian Peninsula as a whole. For its part, Tehran purports to be doubtful of the Saudi monarchy's staying power, although the Shah is somewhat more optimistic since the new leadership took over last year.

Iran's ~~its~~ relations with the Arab states of the Gulf. An Iranian expeditionary force has been in Oman for several years assisting Sultan Qabus in putting down a leftist rebellion in Dhofar Province.



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The Shah's ambition to become a regional power, as well as a concern for protecting his eastern flank, have led him to cooperate closely with the Bhutto government in Pakistan. He has extended budgetary support to Islamabad as well as granting loans to modernize the Pakistani army.